

AUGRES-SIMS SCHOOL DISTRICT
AuGres, Michigan

Financial Statements
June 30, 2008

AUGRES-SIMS SCHOOL DISTRICT
AUGRES, MICHIGAN
JUNE 30, 2008

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Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacomo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

November 18, 2008

To the Board of Education
AuGres-Sims School District
AuGres, Michigan

We have audited the accompanying financial statements of the governmental activities of AuGres-Sims School District, as of and for the year ended June 30, 2008, which comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of AuGres-Sims School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the AuGres-Sims School District as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
AuGres-Sims School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2008, on our consideration of AuGres-Sims School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gardner, Provencio, Schauman & Thomas, P.C.

Certified Public Accountants

AUGRES-SIMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the annual financial report presents management's discussion and analysis of AuGres-Sims School District's performance during the fiscal year ending June 30, 2008. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the School District.

Annual Report

The annual report consists of our Management's Discussion and Analysis, a series of financial statements, notes to those statements, and supplemental information. The financial statements are divided into two sections. The District-Wide Financial Statements provide information about the activities of the School District as a whole. They present a year-end aggregate view and a longer-term view of the District's finances. All funds and capital assets and debt are combined. The Governmental Fund Statements provide more detail showing the year's activity by fund. They also show the amount available to finance future programs. Governmental Fund Statements do not include long-term items such as capital assets or long-term debt.

District-Wide Financial Statements

The District-Wide Financial Statements appear first in the financial statements. They present information on the School District as a whole. They show net assets and a statement of activities for the year. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Net assets, the difference between assets and liabilities, are one way of measuring the financial health of the School District. In the statement of activities, the revenues less the expenses result in an increase or decrease in the net assets. Increases or decreases in net assets, over time, affect the financial health of the District. However, the goal of the School District is to provide quality education and a safe environment, not to make a profit.

The statement of activities covers all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, and State and Federal grants finance most of these activities.

AUGRES-SIMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Governmental Fund Statements

The Governmental Fund Statements provide detailed information on a fund level instead of the School District as a whole. Some funds are required to be established by State law and by bond covenants. Many of the other funds are created to help control and manage money for a particular purpose or to meet legal responsibilities for certain taxes, grants, and other money. The governmental funds of the School District focus on showing how money flows into and out of funds and the balances left at year-end. They provide a detailed, short-term view of the operations and services of the School District. This helps determine whether more or fewer financial resources are available for future programs. An accounting method called modified accrual accounting is used in fund accounting. This method measures cash and all other financial assets that can readily be converted to cash.

The relationship between District-Wide Financial Statements and Governmental Fund Statements will be reconciled later in the annual report.

Agency and Trust Accounts

The School District acts as an agent for various student activity funds. These net assets are reported in separate statements. We exclude these net assets from the School District's other financial statement because we cannot use these assets to finance our operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

AUGRES-SIMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Summary of District-Wide Financial Statement

Table 1 provides a summary of our net assets as of June 30, 2008 and June 30, 2007. They represent the School District as a whole.

	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 969,684	\$ 1,151,073
Capital assets - net of accumulated depreciation	<u>6,559,937</u>	<u>6,770,995</u>
Total Assets	<u>7,529,621</u>	<u>7,922,068</u>
Liabilities		
Current liabilities	828,365	829,638
Long-term liabilities	<u>4,227,480</u>	<u>4,614,607</u>
Total Liabilities	<u>5,055,845</u>	<u>5,444,245</u>
Net assets		
Invested in capital assets - net of related debt	2,044,937	1,990,995
Restricted for debt service	342,255	270,583
Unrestricted	<u>86,584</u>	<u>216,245</u>
Total Net Assets	<u>\$ 2,473,776</u>	<u>\$ 2,477,823</u>

Analysis of Overall Financial Position and Results of Operations

The school district's net assets were \$2,473,776 as of June 30, 2008. Capital assets, net of related debt, totaled \$2,044,937. This represents the original cost, less depreciation of the School District's capital assets, less long-term debt related to capital assets. Restricted net assets of \$342,255 are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets was unrestricted. The \$86,584 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net asset balance is used for working capital and cash flow needs as well as to provide for future uncertainties. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

AUGRES-SIMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Analysis of Overall Financial Position and Results of Operations (cont.)

The following table provides a summary of the School District's operations as a whole for the years ended June 30, 2008 and 2007.

Revenue	2008	2007
Program revenue		
Charges for services	\$ 120,867	\$ 123,915
Grants and contributions	625,986	617,404
General revenue		
Property taxes	2,330,149	2,279,085
State foundation allowance	1,408,972	1,592,088
Other	121,791	108,911
Total Revenue	<u>4,607,765</u>	<u>4,721,403</u>
Function/Program expenses		
Instruction	2,590,841	2,501,034
Support services	1,279,794	1,471,452
Food services	220,799	219,058
Athletics	64,855	72,508
Interest & misc. expense on long-term debt	209,125	220,789
Depreciation (unallocated)	246,398	256,897
Total Expenses	<u>4,611,812</u>	<u>4,741,738</u>
Increase (decrease) in Net Assets	<u>\$ (4,047)</u>	<u>\$ (20,335)</u>

As reported in the statement of activities, the cost of all governmental activities this year was \$4,611,812. Certain activities were partially funded from those who benefited from the programs, \$120,867, or by other governments and organizations that subsidized certain programs with grants and categoricals, \$625,986. The remaining "public benefit" portion of the governmental activities was paid with \$2,330,149 in taxes, \$1,408,972 in State Foundation Allowance, and with other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$4,047. The assets decreased primarily as a result of ongoing operations in the School District.

AUGRES-SIMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Analysis of Overall Financial Position and Results of Operations (cont.)

As discussed above, the net cost shows the financial burden that was placed on the State and the AuGres-Sims School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

Governmental Fund Statements

As the School District completed this year, the governmental funds reported a combined fund balance of \$532,888, which is a decrease of \$146,904 from last year. In the general fund, our principal operating fund, the balance decreased \$218,576 to \$190,633. The decrease in the fund balance was the result of the District providing the same level of service while student enrollment declined. This decrease was not as large as the District had anticipated.

The food service fund required a transfer from the general fund of \$20,043 to subsidize the program. This was as a result of increasing food costs, a decline in pupil count, and less days of meals served. The athletic fund required a general fund transfer of \$34,367.

The debt service fund showed a fund balance increase of \$71,672. Millage rates are determined annually to ensure that the School District accumulates sufficient funds to pay annual bond issue-related debt service. The fund balance in the debt service fund is reserved since it can only be used to pay debt service obligations.

Fund Budget Analysis

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the District revises its budget to reflect changes in revenues and expenditures. For fiscal year 2007-08 the budget was amended in June of 2008. A budgetary comparison schedule showing the school district's original budget and final amended budget amounts compared with actual amounts for revenue and expenditures is provided in required supplemental information of these financial statements.

AUGRES-SIMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Final Budget vs. Original Budget

The general fund original budget revenues were increased \$76,154 for a final budget estimate of \$3,810,918. The most significant change to the general fund original revenue budget is as follows:

- State revenues increased overall by \$50,614. The majority of this increase was the result of an increase in the per pupil state aid funding.

The general fund original budget expenditures were increased \$123,771. The most significant change to the general fund original expenditure budget is as follows:

- The increased cost of basic programs was mostly the result of adding salaries of teachers into the basic program function that were originally budgeted in Title Programs. The State modified rules that were not clarified until October. Several changes were made but no budget amendments were acted upon until June, due to the loss of our business manager in December and the hiring of a new business manager in March.

Actual Results vs. Final Budget

The actual results for the general fund revenue were \$40,431 more than anticipated. Significant variances are as follows:

- Revenue from local sources was greater than the budget by \$46,237. The majority of that variance was due to more property taxes received than budgeted for.
- Incoming transfers and other revenue was \$31,655 more than anticipated due to an audit entry to record the proceeds of a capital lease in the amount of \$25,697.

The actual results for the general fund expenditures were \$31,638 less than anticipated. Significant variances are as follows:

- The variance in basic programs of \$34,746 was mostly salaries and was due to moving various staff salaries to the added needs function.
- The District is always looking at ways to save school funds. There are three main reasons for the variance in our added needs function budget as compared to actual results. First, the District changed health providers for several of our groups, savings several thousands of dollars. Secondly the aides worked a reduced number of days for the year. Lastly, due to a tightening of budgets, the amount of conferences for staff was reduced by over 80%.

**AUGRES-SIMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Capital Assets

The upgrades to the athletic complex (construction in progress) are still ongoing and are being funded with donations from the community. Other capital outlay expenditures this year included the purchase of a server and a new phone system. Capital assets at June 30, 2008 and 2007 are as follows:

	2008	2007
Land	\$ 7,079	\$ 7,079
Construction in progress	44,029	39,128
Land improvements	307,964	307,964
Buildings	8,527,376	8,527,376
Library books	375,683	375,683
Machinery & Equipment	838,670	808,231
Furniture	334,200	334,200
Buses	410,534	410,534
Vehicles	42,297	42,297
Total Capital Assets	10,887,832	10,852,492
Less accumulated depreciation	4,327,895	4,081,497
Net Capital Assets	<u>\$ 6,559,937</u>	<u>\$ 6,770,995</u>

Debt

As of June 30, 2008, the School District had \$4,619,049 in Long-Term Debt versus \$4,972,964 in the previous year – a change of 7%.

	2008	2007
Governmental Activities		
Bonds	\$ 4,515,000	\$ 4,780,000
Contracts payable/Retirement	21,666	44,722
Accrued compensated absences	7,480	6,769
Due to State of Michigan	71,179	141,473
Capital leases	3,724	-
Totals	<u>\$ 4,619,049</u>	<u>\$ 4,972,964</u>

The State limits the amount of general obligation debt that schools can issue to 15% of the assessed value of all taxable property within the School District's boundaries. If the School District issued "qualified debt," such obligations are not subject to this debt limit. The School District has no unqualified general obligation debt. Other obligations include employee-compensated absences, retirement incentives, a capital lease and due to State of Michigan. The notes to the financial statements contain detailed information on long-term liabilities.

AUGRES-SIMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Economic Conditions Affecting Next Year's Budget

The District's enrollment has been declining. The student count in 2007-2008 was 456 on the September count day. Count day in September of 2008 was down to 400 even. That decrease number was over twice as much as originally projected. This is having a direct impact on the revenue received from the State.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions regarding this report, please contact:

Gary Marchel
Superintendent
AuGres-Sims School District
310 Court Street
P.O. Box 648
AuGres, Michigan 48703

AUGRES-SIMS SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
Assets	
Cash	\$ 453,086
Receivables	10,117
Inventories	3,099
Due from other governmental units	498,266
Prepays	5,116
Capital assets less accumulated depreciation	6,559,937
Total Assets	<u>7,529,621</u>
Liabilities	
Current liabilities	
Accounts payable	116,120
Accrued liabilities	277,539
Deferred revenue	43,137
Bonds payable, due within one year	295,000
Retirement incentive, due within one year	21,666
Due to State of Michigan, due within one year	71,179
Capital lease	3,724
Long-term liabilities	
Bonds payable, due in more than one year	4,220,000
Compensated absences, due in more than one year	7,480
Total Liabilities	<u>5,055,845</u>
Net Assets	
Invested in capital assets net of related debt	2,044,937
Restricted for debt service	342,255
Unrestricted	86,584
Total Net Assets	<u>\$ 2,473,776</u>

The accompanying notes are an integral part of these financial statements.

AUGRES-SIMS SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 2,590,841	\$ 20,594	\$ 389,163	\$ (2,181,084)
Support services	1,279,794	7,200	87,467	(1,185,127)
Food services	220,799	63,007	134,624	(23,168)
Athletics	64,855	30,066	14,732	(20,057)
Interest on long-term debt	209,125	-	-	(209,125)
Depreciation (unallocated)	246,398	-	-	(246,398)
Totals	<u>\$ 4,611,812</u>	<u>\$ 120,867</u>	<u>\$ 625,986</u>	<u>(3,864,959)</u>
General revenues:				
Taxes:				
Property taxes levied for general purposes				1,791,643
Property taxes levied for debt service				538,506
State aid - unrestricted				1,408,972
Interest				31,895
Other				37,426
Subtotal General Revenues				<u>3,808,442</u>
Excess (deficiency) of revenues over expenses before special items				(56,517)
Special item-sale of unimproved land				34,270
Extraordinary item-insurance proceeds				18,200
Total general revenues, special and extraordinary items				<u>3,860,912</u>
Change in Net Assets				(4,047)
Net Assets - Beginning of Year, Restated				2,477,823
Net Assets - End of Year				<u>\$ 2,473,776</u>

The accompanying notes are an integral part of these financial statements.

AUGRES-SIMS SCHOOL DISTRICT
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2008

	General	Food Service	Athletic	Debt Service	Totals
<u>Assets</u>					
Cash	\$ 29,844	\$ 66,436	\$ 31,391	\$ 325,415	\$ 453,086
Accounts receivable	10,017	100	-	-	10,117
Inventory	-	3,099	-	-	3,099
Due from other funds	146,013	20,043	34,367	15,743	216,166
Due from other governments	494,382	1,745	-	2,139	498,266
Prepaid expenditures	4,398	718	-	-	5,116
Total Assets	<u>\$ 684,654</u>	<u>\$ 92,141</u>	<u>\$ 65,758</u>	<u>\$ 343,297</u>	<u>\$ 1,185,850</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 114,244	\$ 647	\$ 187	\$ 1,042	\$ 116,120
Due to other funds	70,153	81,354	64,659	-	216,166
Deferred revenue	43,137	-	-	-	43,137
Accrued expenditures	266,487	10,140	912	-	277,539
Total Liabilities	<u>494,021</u>	<u>92,141</u>	<u>65,758</u>	<u>1,042</u>	<u>652,962</u>
<u>Fund Balance</u>					
Reserved for debt retirement	-	-	-	342,255	342,255
Undesignated & unreserved	190,633	-	-	-	190,633
Total Fund Balance	<u>190,633</u>	<u>-</u>	<u>-</u>	<u>342,255</u>	<u>532,888</u>
Total Liabilities and Fund Balance	<u>\$ 684,654</u>	<u>\$ 92,141</u>	<u>\$ 65,758</u>	<u>\$ 343,297</u>	<u>\$ 1,185,850</u>

The accompanying notes are an integral part of these financial statements.

AUGRES-SIMS SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL
FUNDS TO DISTRICT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Fund Balances - Governmental Funds	\$ 532,888
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is	10,887,832
Accumulated depreciation is	(4,327,895)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Bonds payable	(4,515,000)
Contracts payable/Retirement incentive	(21,666)
Compensated absences	(7,480)
Due to State of Michigan	(71,179)
Capital lease	(3,724)
Total Net Assets - Governmental Activities (District Wide)	<u>\$ 2,473,776</u>

The accompanying notes are an integral part of these financial statements.

AUGRES-SIMS SCHOOL DISTRICT
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	General	Food Service	Athletic	Debt Service	Totals
Revenue					
Local	\$ 1,882,769	\$ 66,132	\$ 30,488	\$ 550,869	\$ 2,530,258
State	1,663,310	11,284	-	-	1,674,594
Federal	181,483	123,340	-	-	304,823
Other	123,787	-	-	-	123,787
Total Revenue	<u>3,851,349</u>	<u>200,756</u>	<u>30,488</u>	<u>550,869</u>	<u>4,633,462</u>
Expenditures					
Instruction					
Basic programs	1,979,641	-	-	-	1,979,641
Added needs	610,490	-	-	-	610,490
Support services					
Pupil	39,855	-	-	-	39,855
Instructional staff	111,690	-	-	-	111,690
General administration	164,878	-	-	-	164,878
School administration	184,627	-	-	-	184,627
Business	158,382	-	-	-	158,382
Operation and maintenance	445,407	-	-	-	445,407
Pupil transportation services	224,244	-	-	-	224,244
Central	171	-	-	-	171
Other	5,179	-	-	-	5,179
Debt service	90,951	-	-	479,197	570,148
Food service	-	220,799	-	-	220,799
Athletic	-	-	64,855	-	64,855
Total Expenditures	<u>4,015,515</u>	<u>220,799</u>	<u>64,855</u>	<u>479,197</u>	<u>4,780,366</u>
Excess (Deficiency) of Revenues Over Expenditures	(164,166)	(20,043)	(34,367)	71,672	(146,904)
Other Financing Sources (Uses)					
Sources	-	20,043	34,367	-	54,410
Uses	(54,410)	-	-	-	(54,410)
Total Other Financing Sources (Uses)	<u>(54,410)</u>	<u>20,043</u>	<u>34,367</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(218,576)	-	-	71,672	(146,904)
Fund Balances - Beginning of Year	409,209	-	-	270,583	679,792
Fund Balances - End of Year	<u>\$ 190,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 342,255</u>	<u>\$ 532,888</u>

The accompanying notes are an integral part of these financial statements.

AUGRES-SIMS SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
 TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2008

Net Change in Fund Balances - Governmental Funds	\$ (146,904)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.	
Depreciation expense	(246,398)
Capital outlay	35,340
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities	265,000
The proceeds from long-term debt are a revenue in the governmental funds, but not in the statement of activities	
Capital lease - Other Financing Sources	(25,697)
In the statement of activities, certain expenses (retirement incentives, compensated absences) are measured by the amounts earned during the year. The governmental funds measure the financial resources used (paid). This year, the amount of these items paid (earned) exceeded the amounts earned (paid)	
Capital lease	21,973
Compensated absences	(711)
Contracts payable/Retirement incentive	23,056
Due to State of Michigan	70,294
Change in Net Assets of Governmental Activities (District Wide)	<u>\$ (4,047)</u>

The accompanying notes are an integral part of these financial statements.

AUGRES-SIMS SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

Agency Funds

Assets

Cash, student organizations	\$ 39,921
Total Assets	<u>\$ 39,921</u>

Liabilities

Due to student organizations	\$ 39,921
Total Liabilities	<u>\$ 39,921</u>

The accompanying notes are an integral part of these financial statements.

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

The AuGres-Sims School District (the "School District") operates under an elected Board of Education and provides educational services to approximately 456 students.

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

B. District-Wide Statements

The District-Wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the primary government. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the District's government wide activities are considered to be governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to students or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

The District-Wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The District-Wide approach is focused more on the sustainability of the School District as an entity and the change in the District's net assets from the current year's activities.

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements

The accounts of the School District are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the School District:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the District.

General Fund is the general operating fund of the School District. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Food Service and Athletic funds are special revenue funds.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on long-term debt.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support School District programs.

The School District has opted to display information for all funds without regard to the criteria established by GASB 34 for determination of major funds. The School District's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the District-Wide statements.

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting records revenues when earned and expenses when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are still recognized when incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received. In general, outstanding balances between funds are reported as "due to/from other funds".

Inventories

Inventories consist of expendable supplies held for the District's use and are carried at cost using the first-in, first-out method.

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Prepaid

Prepaid amounts consist of payments for which the District will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The School District does not possess infrastructure type assets.

Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Buildings	50 years
Land improvements	20 years
Buses and other vehicles	8 years
Furniture, equipment and computers	5-20 years

Accounts Payable

Accounts payable consist of items from which the District benefited during the current fiscal year but has not yet paid.

Accrued Liabilities

Accrued liabilities consist of amounts due on employees' contracts that are due and payable for the current fiscal year and items related to salaries payable, specifically the District's portion of FICA and Medicare taxes and retirement contributions.

Deferred Revenue

Deferred revenue represents amounts for which the District has received or is due to receive but has not yet earned. Deferred revenue is usually caused by the receipt of certain categorical funds that are not expended by the close of the fiscal year. The revenues are deferred until the proceeds have been fully expensed/expended.

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Long-Term Liabilities

Bonds payable are the result of long-term obligations issued for the purpose of making capital purchases and improvements or the refinancing of previously issued obligations. Retirement incentives are the result of agreements made between the District and certain employees opting for early retirement. The liability for compensated absences reported in the District-Wide statements consists of unused, accumulated absence balances per support staff. The liability has been calculated based on a per employee limit of 100 days accumulated at a \$10.00 per day payment. Payments are to be made if an employee accumulates over the 100-day limit or retires. The District has concluded that estimating a current portion of compensated absences would be impossible; therefore, no portion is recorded as such. Due to the State of Michigan is as a result of a Department of Treasury audit in which the Department of Treasury concluded the District had been overpaid for state school aid. The Michigan Department of Education is allowing the District to repay the overpayment over five years. The final payment will be in the 2008-2009 fiscal year.

Inter-fund Activity

Inter-fund activity is reported as loans, reimbursements, or transfers. Loans are reported as inter-fund receivables and payables and are eliminated upon consolidation. Transfers are eliminated upon consolidation.

NOTE 2--Stewardship, Compliance, and Accountability

The School District is required to adopt an annual budget before the beginning of the fiscal year for the General Fund, Food Service Fund, and the Athletic Fund. The accounting basis of the budgets is the modified accrual method. Following are the procedures used in establishing the budgetary data reflected in the financial statements:

1. The District's Superintendent submits to the Board of Education a proposed budget by June 30 of each year. The budget includes proposed expenditures and the means to finance them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The Superintendent is authorized to transfer budgeted amounts within functional expenditure lines as approved by the Board; however, any revisions that alter functional expenditure lines of any fund must be approved by the Board of Education.

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2--Stewardship, Compliance, and Accountability (continued)

4. Budgeted amounts shown in the supplemental information reflect amendments through June 30.

The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by June 30. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The School District variances are illustrated in the required supplemental information.

NOTE 3--Deposits and Investments

The School District is authorized, by the State of Michigan, to deposit its fund in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The District is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks,
- f. Mutual funds – investments which local unit can make directly.

All cash is held by federally insured financial institutions. The FDIC insures up to \$100,000 in demand deposits; however, separately named accounts of a governmental entity in a single financial institution may not necessarily be treated as separate deposit for the \$100,000 limitation. Subsequent to the year ended June 30, 2008, the FDIC limit was raised to \$250,000.

A summary of bank cash and investments is as follows:

Cash	Total	Insured	Collateralized	Uninsured Uncollateralized
General Fund	\$ 143,534	\$ 100,441	\$ -	\$ 43,093
Special revenue	98,002	-	-	98,002
Agency	41,453	-	-	41,453
Debt service	325,417	-	-	325,417
Total	<u>\$ 608,406</u>	<u>\$ 100,441</u>	<u>\$ -</u>	<u>\$ 507,965</u>

The primary objective of the District's investment policy, in priority order, of investment activities shall be safety, liquidity and yield.

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the School District was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets not subject to depreciation				
Land	\$ 7,079	\$ -	\$ -	\$ 7,079
Construction in progress				
Athletic complex	39,128	4,901	-	44,029
Subtotal	46,207	4,901	-	51,108
Capital assets subject to depreciation				
Land Improvements	307,964	-	-	307,964
Buildings	8,527,376	-	-	8,527,376
Library books	375,683	-	-	375,683
Machinery & Equipment	808,231	30,439	-	838,670
Furniture	334,200	-	-	334,200
Buses	410,534	-	-	410,534
Vehicles	42,297	-	-	42,297
Subtotal	10,806,285	30,439	-	10,836,724
Total Capital Assets	10,852,492	35,340	-	10,887,832
Accumulated depreciation				
Land Improvements	254,807	10,523	-	265,330
Buildings	2,188,271	170,402	-	2,358,673
Library books	375,683	-	-	375,683
Machinery & Equipment	721,164	27,446	-	748,610
Furniture	160,756	16,710	-	177,466
Buses	343,185	19,984	-	363,169
Vehicles	37,631	1,333	-	38,964
Total Accumulated Depreciation	4,081,497	246,398	-	4,327,895
Total Net Capital Assets	\$ 6,770,995	\$ (211,058)	\$ -	\$ 6,559,937

Depreciation expense was not charged to activity as the District considers its capital assets to impact multiple activities and allocation is not practical. The total amount of capital leases recorded as assets is \$25,697.

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Inter-fund – Receivables, Payables, and Transfers

The makeup of inter-fund balances and transfers is as follows:

Due From/Due To			
Fund	Receivable	Fund	Payable
General	\$ 64,659	Athletics	\$ 64,659
General	81,354	Food Service	81,354
Athletics	34,367	General	34,367
Debt	15,743	General	15,743
Food Service	20,043	General	20,043
	<u>\$ 216,166</u>		<u>\$ 216,166</u>
Transfers			
Fund	Transfer In	Fund	Transfer Out
Food	\$ 20,043	General	\$ 20,043
Athletics	34,367	General	34,367
	<u>\$ 54,410</u>		<u>\$ 54,410</u>

For the year ended June 30, 2008, transfers from the general fund to the athletic and food service funds were to subsidize these programs.

NOTE 6--Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Other long-term debts include compensated absences, retirement incentives, a capital lease and due to the State of Michigan.

Long-term debt activity is summarized as follows:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Current Portion
Governmental Activities					
Capital lease	\$ -	\$ 25,697	\$ 21,973	\$ 3,724	\$ 3,724
Bonds	460,000	-	215,000	245,000	245,000
Refunding bonds	4,320,000	-	50,000	4,270,000	50,000
Contracts payable/Retirement 2004	1,389	-	1,389	-	-
Contracts payable/Retirement 2006	43,333	-	21,667	21,666	21,666
Accrued compensated absences	6,769	711	-	7,480	-
Due to State of Michigan	141,473	-	70,294	71,179	71,179
Totals	<u>\$ 4,972,964</u>	<u>\$ 26,408</u>	<u>\$ 380,323</u>	<u>\$ 4,619,049</u>	<u>\$ 391,569</u>

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6--Long-Term Debt (continued)

Annual debt service requirements to maturity for the above governmental bonds and retirement obligations are as follows:

Fiscal Year Ended	Due to State	Capital Leases	Retirement & Compensated Absences	Bonds Principal	Interest
2009	\$ 71,179	\$ 3,724	\$ 21,666	\$ 295,000	\$ 196,650
2010	-	-	7,480	315,000	182,162
2011	-	-	-	340,000	169,562
2012	-	-	-	365,000	155,962
2013	-	-	-	390,000	140,450
2014-2018	-	-	-	2,295,000	399,750
2019	-	-	-	515,000	20,600
Totals	<u>\$ 71,179</u>	<u>\$ 3,724</u>	<u>\$ 29,146</u>	<u>\$ 4,515,000</u>	<u>\$ 1,265,136</u>

For the year ended June 30, 2008, the total interest paid on bonded debt was \$209,125.

Governmental Activities:

General obligation bonds consist of the following:

1999 partially refunded in 2005 serial and term bonds
due in annual installments of \$70,000 to
\$245,000 through May 1, 2009;
interest at 5.125% to 5.300%

\$ 245,000

2005 refunding serial bonds
due in annual installments of \$50,000 to
\$515,000 through 2019; interest 2.5% to 4%

4,270,000

Total Bonded Debt

\$ 4,515,000

NOTE 7--Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters. The District has joined together with other school districts in Michigan to form SET-SEG, a public entity risk pool currently operating as a common risk management and insurance program for member Michigan school districts. The District pays an annual premium to SET-SEG for its workers' compensation insurance coverage. The Agreement for formation of SET-SEG provides that SET-SEG will be self-sustaining through member premiums. The District continues to carry commercial insurance for all other risks of loss.

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Pension Plan

The School District's defined benefit pension plan provides retirement, survivor and disability benefits to its employees. The District participates in the Michigan Public School Employees Retirement System (MPERS), a cost sharing multiple-employer, statewide plan governed by the State of Michigan. Benefit provisions are established by state statute. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the MPERS Directors, PO Box 30673, Lansing, Michigan 48909 or by calling (517) 322-6235.

Funding Policy

The School District is required to contribute at an actuarially determined rate; the current rate at June 30, 2008 was 16.72% of covered payroll. Employees hired before January 1, 1990 contribute 3.9% of their gross pay. Employees hired January 1, 1990 or later contribute between 3% and 4.3%. The contribution requirements are established and may be amended by the State of Michigan.

The contribution requirements of plan members are established and may be amended by the State of Michigan. The District's contributions to MPERS for the current year and the preceding two years were \$376,930, \$388,872, and \$398,274, respectively, which was 100% of the annual required contribution.

NOTE 9--Operating Lease

The District has a lease for its copiers. Lease expense for the year ended June 30, 2008 was \$14,904. Subsequent payments are as follows:

<u>June 30,</u>	<u>Payments</u>
2009	\$ 14,904
2010	6,210
	<u>\$ 21,114</u>

NOTE 10--Self-Funded Insurance

The AuGres-Sims School District has a self-insured dental and vision plan. Participants and their eligible dependents are entitled to benefits as outlined by the AuGres-Sims School District.

AUGRES-SIMS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11--Deferred Compensation Plan

The AuGres-Sims School District established a Section 457(b) deferred compensation plan for its employees. The plan, which became effective as of January 1, 2003, is available to all employees of the District. For 2008, employees can defer up to the lesser of the Internal Revenue Service threshold or 100% of their compensation. Contribution limits are subject to changes in U.S. tax laws. AuGres-Sims School District does not make any contributions to the Plan.

NOTE 12--Fund Balance Reservations

AuGres-Sims School District has reserved \$342,255 in fund balance for debt service.

NOTE 13--Advance Refund of Bond Resulting in Defeasance of Debt

During the fiscal year ended June 30, 2005, the District issued \$4,420,000 in general obligation-refunding bonds with interest rates ranging between 2.50% and 4.00%. The District issued the bonds to advance refund \$4,470,000 of the outstanding series 1999 general obligation bonds with interest rates ranging from 5.25% to 5.30%. The District used the net proceeds, along with other sources, to purchase State and Local Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded 1999 series bonds. As a result, the 1999 series bonds are considered defeased, and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$4,470,000 as of June 30, 2008.

The advance refunding reduced the total debt service payments over the next 16 years by \$460,617. This results in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$234,293.

NOTE 14--Restatement

Net Assets have been restated by \$29,328. The adjustment was made to capture capital outlay for the athletic complex that had not been recorded at June 30, 2007. Net Assets were restated as follows:

<u>As of July 1, 2007</u>	
Net Assets	\$ 2,448,495
Construction in progress- Athletic complex capital outlay	29,328
Net Assets, Restated	<u>\$ 2,477,823</u>

REQUIRED SUPPLEMENTAL INFORMATION

AUGRES-SIMS SCHOOL DISTRICT
BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund			Special Revenue Funds (Food Service and Athletic)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
						Positive (Negative) Variance
Revenue						
Local	\$ 1,826,692	\$ 1,836,532	\$ 1,882,769	\$ 108,900	\$ 96,778	\$ 96,620
State	1,625,099	1,675,713	1,663,310	10,886	11,284	11,283
Federal	225,539	206,541	181,483	130,000	123,295	123,341
Incoming transfers and other	57,434	92,132	123,787	33,215	55,279	54,410
Total Revenues	3,734,764	3,810,918	3,851,349	283,001	286,636	285,654
Expenditures						
Instruction						
Basic programs	1,963,585	2,014,387	1,979,641	-	-	-
Added needs	643,794	648,499	610,490	-	-	-
Support Services						
Pupil	39,792	41,382	39,855	-	-	-
Instructional staff	115,854	111,498	111,690	-	-	-
General administration	173,054	161,563	164,878	-	-	-
School administration	195,904	185,409	184,627	-	-	-
Business	127,877	147,595	158,382	-	-	-
Operation and maintenance	410,355	430,665	445,407	-	-	-
Pupil transportation services	199,584	227,431	224,244	-	-	-
Central	-	-	171	-	-	-
Other	2,278	5,355	5,179	-	-	-
Food service	-	-	-	209,606	219,881	220,799
Athletic activities	-	-	-	67,015	66,755	64,855
Debt service	72,500	72,500	90,951	-	-	-
Outgoing transfers	33,215	55,279	54,410	-	-	-
Total Expenditures	3,977,792	4,101,563	4,069,925	276,621	286,636	285,654
Excess (Deficiency) of Revenues Over Expenditures	(243,028)	(290,645)	(218,576)			
Fund Balance - Beginning of Year	409,209	409,209	409,209	6,380	-	-
Fund Balance - End of Year	\$ 166,181	\$ 118,564	\$ 190,633	\$ 6,380	\$ -	\$ -

See independent auditor's report.

ADDITIONAL SUPPLEMENTAL INFORMATION

AuGres-Sims School District
Schedules of Outstanding Bonded Indebtedness
June 30, 2008

Date of Issue: November 8, 1999

Original Amount of Issue: \$5,890,000

Partially refunded in 2005

Purpose of the Issue: Erecting, furnishing, and equipping additions to and remodeling, refurbishing, and re-equipping school buildings; and developing and improving sites.

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2009	5.25	\$ 245,000	\$ 12,862	\$ 257,862
		<u>\$ 245,000</u>	<u>\$ 12,862</u>	<u>\$ 257,862</u>

Date of Issue: March 2005

Original Amount of Issue: \$4,420,000

Refunding Bonds

Purpose of the Issue: Erecting, furnishing, and equipping additions to and remodeling, refurbishing, and re-equipping school buildings; and developing and improving sites.

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2009	3.25	\$ 50,000	\$ 183,788	\$ 233,788
2010	4.00	315,000	182,162	497,162
2011	4.00	340,000	169,562	509,562
2012	4.25	365,000	155,962	520,962
2013	5.00	390,000	140,450	530,450
2014	5.00	415,000	120,950	535,950
2015	5.00	440,000	100,200	540,200
2016	4.00	460,000	78,200	538,200
2017	4.00	480,000	59,800	539,800
2018	4.00	500,000	40,600	540,600
2019	4.00	515,000	20,600	535,600
		<u>\$ 4,270,000</u>	<u>\$ 1,252,274</u>	<u>\$ 5,522,274</u>

See independent auditor's report.



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacomo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

November 18, 2008

To the Board of Education
AuGres-Sims School District
AuGres, Michigan

We have audited the financial statements of the governmental activities of AuGres-Sims School District as of and for the year ended June 30, 2008, which comprise AuGres-Sims School District's basic financial statements, and have issued our report thereon dated November 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered AuGres-Sims School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AuGres-Sims School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of AuGres-Sims School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects AuGres-Sims School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of AuGres-Sims School District's financial statements that is more than inconsequential will not be prevented or detected by AuGres-Sims School District's internal control. We consider the following deficiencies described in the accompanying schedule of findings and questioned costs at Items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by AuGres-Sims School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AuGres-Sims School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School District's responses and, accordingly, we express no opinion on it.

To the Board of Education
AuGres-Sims School District
Page Three

This report is intended solely for the information and use of management and the Board of Education and is not intended and should not be used by anyone other than these specified parties.

Gardner, Provenzano, Schauman & Thomas, P.C.

Certified Public Accountants

AUGRES-SIMS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Section II – Financial Statement Audit Findings

Reference
Number

Findings

Finding 2008-1

Criteria

The School District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonable adjusted trial balance from which the basic financial statements are derived. The auditors should be able to audit accounts which have been adjusted through the closing process.

Condition

At the time of our scheduled field work in September, the District's funds were not effectively closed out and in a proper state for audit. Preliminary trial balances forwarded to the auditor included the following: accounts payable, payroll and the related accruals, accounts receivable, and interfund transfers had not been recorded. Cash accounts were found not to have been reconciled since March of 2008. Federal grant revenue had not been requested and payroll tax deposits were found not to have been made in a timely manner.

Cause

Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year. In addition, there were four different people performing the Business Manager function throughout the year.

Effect

As a result of this condition, the School District was not able to produce in a timely manner accurate financial information, which resulted in the audit being delayed. In addition, internal controls could not be relied upon and audit procedures were expanded.

Recommendation

The District should identify the qualifications necessary for an effective Business Manager and assign an appropriate individual to perform the necessary duties in order to provide timely and accurate financial information.

Management's Response

The District has had four different Business Managers in the 2007-2008 school year. In September of 2008, the District hired a certified public accounting firm to prepare the books for audit for the 2007-2008 fiscal year. Upon completion of that task, the firm was hired to conduct the year round operations of the District's business office. The CPA firm is currently managing the business affairs of the District.

AUGRES-SIMS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Section II – Financial Statement Audit Findings

<u>Reference Number</u>	<u>Findings</u>
Finding	2008-2
	<u>Criteria</u>
	The School District is responsible for maintaining an appropriate segregation of duties.
	<u>Condition</u>
	During our audit we noted the Business Manager position makes bank deposits, reconciles the bank accounts, makes journal entries, processes accounts payables and makes bank transfers.
	<u>Cause</u>
	Due to the size of the District and funding, the staff in the Business Office is limited.
	<u>Effect</u>
	The District has an inappropriate segregation of duties.
	<u>Recommendation</u>
	The District should continue to mitigate risk as much as possible by continuing to include the Superintendent and School Board in the reviewing of monthly financial information to include review of invoices and the bank reconciliation.
	<u>Management's Response</u>
	Our District is a small rural district of only 400 students. We have one contracted business person to conduct all facets of our business office operations. The Superintendent and the Board monitor the monthly finances of the District. Since the 2007-2008 fiscal year, the Superintendent and one Board member review and approve every check and invoice. The entire Board continues to review the accounts at every Board meeting.



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

November 18, 2008

To the Board of Education
AuGres-Sims School District
AuGres, Michigan

We appreciate the opportunity to conduct your audit this year. As we've discussed with you previously, we are writing to you as we complete the audit to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the new auditing standard: **Statement on Auditing Standards (SAS) 112: Communicating Internal Control Related Matters Identified In an Audit**. The new standard applies to the audits of any financial statements with periods ending on or after December 15, 2006.

In planning and performing our audit of your financial statements for period ending June 30, 2008, we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting (internal control) as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls. Accordingly, as a part of your audit, we are not expressing an opinion on the effectiveness of your internal control.

Our consideration of internal control was for the limited purpose of conducting your organization's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses that are discussed below. It is important to note that control deficiencies are not necessarily problems you will choose to address; however, they do represent potential risks. Our job as your auditors is to ensure that you understand where you have these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks. In this year's audit, we identified the following:

Significant Deficiencies

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects your entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of your financial statements that is more than inconsequential will not be prevented or detected by your internal control.

Material Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by your internal control. We believe that the following deficiencies constitute material weaknesses:

Finding 2008-1

Criteria

The School District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonable adjusted trial balance from which the basic financial statements are derived. The auditors should be able to audit accounts which have been adjusted through the closing process.

Condition

At the time of our scheduled field work in September, the District's funds were not effectively closed out and in a proper state for audit. Preliminary trial balances forwarded to the auditor included the following: accounts payable, payroll and the related accruals, accounts receivable, and interfund transfers had not been recorded. Cash accounts were found not to have been reconciled since March of 2008. Federal grant revenue had not been requested and payroll tax deposits were found not to have been made in a timely manner.

Cause

Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year. In addition, there were four different people performing the Business Manager function throughout the year.

Effect

As a result of this condition, the School District was not able to produce in a timely manner accurate financial information, which resulted in the audit being delayed. In addition, internal controls could not be relied upon and audit procedures were expanded.

Recommendation

The District should identify the qualifications necessary for an effective Business Manager and assign an appropriate individual to perform the necessary duties in order to provide timely and accurate financial information.

Management's Response

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Finding 2008-2

Criteria

The School District is responsible for maintaining an appropriate segregation of duties.

Condition

During our audit we noted the Business Manager position makes bank deposits, reconciles the bank accounts, makes journal entries, processes accounts payables and makes bank transfers.

Cause

Due to the size of the District and funding, the staff in the Business Office is limited.

Effect

The District has an inappropriate segregation of duties.

Recommendation

The District should continue to mitigate risk as much as possible by continuing to include the Superintendent and School Board in the reviewing of monthly financial information to include review of invoices and the bank reconciliation.

Management's Response

Our District is a small rural district of only 400 students. We have one contracted business person to conduct all facets of our business office operations. The Superintendent and the Board monitor the monthly finances of the District. Since the 2007-2008 fiscal year, the Superintendent and one Board member review and approve every check and invoice. The entire Board continues to review the accounts at every Board meeting.

We are available to answer any questions that you may have related to the control deficiencies we identified during your audit or discuss the benefits and associated costs of any options you have for remedying them if you would like to do so. If you would like to set up a meeting to discuss this communication or your organization's internal controls, please feel free to contact me.

We appreciate the opportunity to conduct your organization's audit.

Sincerely,

Gardner, Provenzano, Schauman & Thomas, P.C.

Gardner, Provenzano, Schauman & Thomas, P.C.